

CITY OF LAREDO, TEXAS

FIXED ASSET ACCOUNTING POLICY

PURPOSE

To establish general requirements for the control of all tangible property and equipment purchased or otherwise acquired by the City of Laredo. The objective of this policy is to ensure adequate control and appropriate use of City fixed assets. The purpose of the controls is to protect fixed assets, avoid unnecessary duplication of assets in the City, and provide itemized listings to support reported Fixed Asset additions.

RESPONSIBILITY

It is the policy of the City that additions and disposals of fixed assets be properly recorded and accounted for based on GAAP (Generally Accepted Accounting Principles). It is the responsibility of the Financial Services Department to ensure fixed assets will be tagged whenever feasible, and accounted for by fund and asset category. Although the administrative responsibility for the control and accounting of property rests with the Finance Department, each City department assumes immediate physical responsibility for safeguarding property in its possession and ensuring that fixed assets are adequately controlled, inventoried on a regular basis, and used for appropriate City purposes.

CAPITALIZATION POLICY

Capitalization is the determination of the threshold value of what qualifies for recording and reporting as a fixed asset. All fixed assets should be capitalized when the following criteria are met:

- The asset is tangible, complete in itself, and is not a component of another capitalized item.
- The asset is used in the operation of the City's activities.
- The asset has a useful life of over 2 years.
- Equipment should be capitalized if its unit cost is \$5,000 or more.
- Building and building improvements should be capitalized if the cost is \$5,000 or more.
- Infrastructure should be capitalized if the cost is \$25,000 or more.
- Land and land improvements should be capitalized if the cost is \$5,000 or more.

Exceptions to this capitalization policy-the following will be capitalized regardless of cost:

- Assets acquired with grant funds. These assets will be capitalized based on grant agreement and policies.*
- Acquisition of vehicles.*
- Art collections and museum and historical collections should be capitalized at the fair market value.*

FIXED ASSET CLASSES

Fixed assets should be classified into the following major accounting groups:

A. Equipment

Equipment includes cost of equipment, office equipment, audiovisual equipment, machinery, furniture and fixtures, furnishings, and similar items. This category contains property that does not lose its identity when removed from its location.

B. Computer Equipment

Equipment that specifically tracks the department's purchase of computers, printers, and scanners. Repairs to computer hardware will not be capitalized.

C. Vehicles

Vehicles and heavy equipment purchased by the department. Equipment purchased at the time that the vehicle is placed into operation and that will add to the value of the vehicle will also be capitalized (e.g. radios, step bars, grill guards, etc.).

D. Building and Building Improvements

Buildings are permanent structures housing persons or personal property. Additions and improvements to buildings and other permanently attached fixtures should be added to the buildings account. Building improvements include assets such as elevators, central air conditioning, heating, and fire alarm system.

E. Infrastructure

Infrastructure assets are long-lived assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most fixed assets. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, lighting systems, parking lots, and fences.

F. Land and Land Improvements

Land should include all land purchased, donated, or otherwise acquired by the City. Land improvements are permanent in nature and include costs directly related to the preparation of existing land for its intended use. Land improvements should not include infrastructure type of assets.

G. Construction in Progress

Construction in Progress (CIP) is a temporary account that includes expenditures on uncompleted facilities, infrastructure, or other capital construction project. Fixed assets that are substantially complete and available for use on September 30 of any year are not CIP. When the asset is substantially complete, costs in the CIP are reclassified into one or more of the other major asset classes of Buildings, Infrastructure, or Equipment based upon the nature of the constructed asset(s).

H. Water Rights

Cost the City incurs in obtaining water rights from private owners.

VALUATION

All fixed assets should be recorded at purchased or historical cost. Donated assets should be reported at fair market value at the time of donation.

Costs that should be included in the total value of a fixed asset:

- The purchase price of the fixed asset, and:
- Freight and storage costs
- Cost of construction
- Assembling and installation costs
- Appraisal and negotiation fees
- Closing and surveying fees in connection with the acquisition of land
- Architectural, engineering, and design costs associated with construction projects
- Land preparation and demolition costs of existing structures with the intent of using the cleared land

Fixed asset components that have a unit cost under the City's threshold amount should be capitalized if they are originally purchased as part of a system and the system cost equals or exceeds the threshold amount. A system is defined as a group of interacting, interrelated, or interdependent components forming a whole. The reasoning behind this is that components of the system, standing alone, cannot function or serve its intended purpose by itself. In subsequent years, additions to an existing system or individual item do not need to be capitalized unless the unit cost of the addition is \$5,000 or more.

Capital lease installment purchases of equipment are to be capitalized in the year of acquisition. The amount to be capitalized is the present value of the future minimum lease payments.

CHANGES IN ASSET STATUS

A. Fixed Asset Disposition

Each City department is responsible for promptly reporting disposal of their fixed assets. All items sold, traded-in, scrapped, abandoned or in any way removed from service are classified as dispositions. All fixed asset dispositions will be substantiated with a Fixed Assets Transfer/Disposition Form that is approved by the Department and Division heads. This form, along with the asset tag attached, should be submitted to the Financial Services Department within a reasonable amount of time after the asset disposal.

B. Fixed Asset Transfer

All fixed asset transfers between City departments must also be substantiated with a Fixed Assets Transfer/Disposition form. Both the transferring and receiving departments will need to sign the form in order to complete the transfer process. The form needs to be submitted to the Financial Services Department in a timely manner to adequately maintain control of fixed assets.

PROCEDURES

1. Requisition

For the purchase of equipment, the location and name of person need to be included in the Comments section of the requisition. This will facilitate in the tagging of these assets.

For the purchase of additions to automotive equipment, the unit number of the vehicle needs to be included in the Comments section.

2. Tagging

Positive identification of the City's fixed assets requires the use of a tagging system. The use of a bar coded, numbered tag will be used in the inventory effort.

After an item is received and paid by the Department, the following actions will be performed:

- Accounting Division will run the Pending Asset Listing that lists all assets that need to be entered into the Fixed Asset System.

- Based on this list, the Accounting Division will provide the receiving departments a list of all equipment that needs to be tagged.

- The Accounting Division, with assistance from the Departments, will be responsible for tagging of fixed assets. The Accounting Division will assign an asset identification number to each asset and then visit the Departments to tag the items. The tag should be permanently affixed to the item, in a conspicuous place wherever applicable.

Please note that only movable equipment will be assigned a fixed asset number. Vehicles will not be tagged, but will be assigned an identification number based on the VIN number and unit number.

3. Asset Recording and Reporting

Once the assets are assigned an identification number, the Accounting Division will update the pending asset file by entering the data in the Fixed Asset System. The Fixed Asset Register will detail the following:

- Asset identification number

- Description of asset

- Serial number (if applicable)

- Date of acquisition

- Acquisition cost

- Asset class

- Purchase order number (if applicable)

- Physical location

- Asset life

- Vendor name (if applicable)

Department responsible for asset
Fund/Account from which purchased
Method acquired
Date and method of disposition
Asset Classification (Government/Proprietary)

The Accounting Division will be responsible for updating journal entries generated by the pending asset listing.

4. Depreciation

Depreciation is an allocation of the cost of tangible property over its estimated useful life in a systematic manner. The City calculates depreciation in accordance with Generally Accepted Accounting Principles. For proprietary funds, the depreciation amounts calculated are reported in the general ledger. For governmental funds, the depreciation amounts are not reported at the fund level in the accounts of governmental funds, only in the Comprehensive Annual Financial Report.

Assets that are still in use but have been fully depreciated will be reported at historical cost but will have a net book value of zero to indicate the asset is still in use beyond its depreciable life. Assets will be reported until disposal.

The straight-line depreciation method is used. The salvage value of all assets must be set at zero. Straight line depreciation is calculated by dividing the total asset cost by its useful life (as listed below). The term accumulated depreciation indicates the total depreciation expense that has accumulated from the time of acquisition to the present time. Land, land improvements, and construction in progress, and water rights are not depreciated.

Depreciation Life Schedule

Buildings	45 years
Machinery & Equipment	10 years
Computer Equipment	3 years
Vehicles	6 years
Transit Buses	12 years
Infrastructure	25 years